AOD 207

AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, February 25, 1975

LESS INCOME LIKELY

Another dramatic change in the farm income picture is probable this year. And as in 1974, the direction is down.

Realized net farm income, at $17½ billion in 1972, shot up to around $32.2 billion in 1973. Then inflation in farm costs and lower livestock prices took a 15-percent bite, reducing net income to $27.2 billion for 1974.

Income for 1975 may fall short of the $24-$27 billion range USDA predicted at the December 1974 Agricultural Outlook Conference, provided that the weather is about normal. One big reason for this lowering of sights on the dollars farmers earn is the downtrend in commodity prices in the past few months.

The outlook for 1975 crops will be very sensitive to developments both here and abroad. Increased crop output from 1974 levels coupled with reduced utilization could lead to considerably lower net farm income. On the other hand, crop output similar to that of 1974 and high utilization would maintain farm incomes. For livestock, some slight improvement in receipts is expected over last year's performance.

Production expenses are continuing their persistent rise. The 1975 prospective increase in outlays is expected to be below the $10-billion jump experienced in 1974. Feed costs may be somewhat lower and fuel and fertilizer prices are not likely to show the dramatic rise of 1974.

The outlook is further clouded by uncertainties in the general economic picture. Consumer demand is likely to be constrained by high unemployment and a high rate of inflation. Proposed tax cuts would help to bolster domestic demand. Developments in the world food, energy, and financial picture will also affect the outlook.

Total cash receipts were record high in 1974

Source	1973	1974
	Billion dollars	
Farm marketings and loans:[1]	88.6	95.0
Livestock and products	46.2	42.3
Meat animals	30.8	26.5
Dairy products	8.1	9.3
Poultry and eggs	6.9	6.2
Other	0.5	0.4
Crops	42.3	52.7
Food grains	6.8	9.1
Feed crops	11.0	14.7
Cotton (lint and seed)	2.7	3.5
Tobacco	1.6	2.1
Oil-bearing crops	9.5	11.1
Vegetables and melons	4.3	5.5
Fruits and tree nuts	3.3	3.6
Other	3.1	3.2
Government payments	2.6	0.5
Total cash receipts	91.2	95.5

[1] Receipts from loans represent value of loans minus value of redemptions.

Preliminary estimates for 1974 as of January 1. Details may not add to totals due to rounding.

Economic Outlook

A generally gloomy economic outlook for the months ahead contains a few trends favoring farmers—slowing inflation and easing interest rates. And hopefully, economic recovery may begin during the second half of 1975.

Right now, farmers are feeling the impact of receding commodity prices. Farm prices have eased for 3 months running, partly because of slowing demand, and partly because of indications of increased plantings this spring.

Times are getting tough, too, for work off the farm, with unemployment at a 24-year high of over 8 percent in January, and expected to stay up.

Real gross national product (with inflationary dollars removed), measuring the Nation's economic output, slumped during each quarter of 1974, and eased the United States into its deepest postwar recession. During the first half of 1974, tightening supplies of key materials reduced output of goods and sent prices spiraling. Later on, demand for goods and services weakened, causing output to decline even more. The third quarter was marked by a drop in fixed business investment, declining production, and unemployment rises. By the fourth quarter, a full-blown recession was going, fueled by dramatic declines in real consumer purchases, real business fixed investment, output, and employment.

Continued on page 4, column 1.

CONTENTS: Farm Income, Economy Down, p. 1. . . Food Prices, p. 2 . . . Price Spreads, p. 4 . . . Feed Grains, Cattle Blues, p. 5 . . . Fewer Hogs, p. 7, Livestock News, p. 8 . . . Tobacco's Future, p. 9 . . . Vegetable Roundup, p. 10 . . . Export Value Up, p. 11.

Farm Economy

The food price outlook: Uncertainties Abound. How far will commodity prices fall? How long will big cattle slaughter keep up? What will second-half weather do?

Food Prices

Though considerable uncertainty surrounds the outlook, retail food prices will probably increase 2-3 percent in the first quarter and about 3 percent in the second. No department of the supermarket will escape price rises, but increases will affect crop-related foods most in the first quarter and red meats and poultry in the second.

Uncertainties abound. If farm commodity prices fall more sharply than now seems likely because of sagging foreign or domestic demand, food prices may not rise as much.

Another consideration is: How long will the heavy slaughter of cattle fed limited amounts of grain or moving directly off the range keep up? Right now, this source of meat is helping to balance reduced supplies of fed beef, pork, and poultry. Food prices may prove more stable if total beef slaughter stays high, but might increase faster if it falls off sharply.

For the second half of 1975, the outlook is even foggier. Food price behavior will depend greatly on weather conditions and resulting effects on farm output here and abroad, as well as on the state of the economy.

Per capita food consumption in 1975 will probably fall 1 percent from last year, mainly because of an expected 1½ percent drop for livestock-related products. The predicted ½-percent decline in crop foods will primarily reflect lower use of sugar and coffee, but use of cereal products, beans, peas, and nuts will increase. Through the first 9 months of the year, consumers are expected to eat considerably less livestock-related products than in this period a year earlier, reflecting reduced production. After that, some gain in poultry and dairy use could raise livestock product consumption to the level of a year before. But for the year, sharply lower use of poultry, eggs, and animal fats will more than offset larger beef and veal consumption.

Developments in 1974

Compared with 1973, retail food prices averaged nearly 14½ percent higher in 1974. Grocery stores food prices rose 14.9 percent; restaurant meal and snack prices went up 12.7 percent. Most of the average price rise occurred in crop-related foods—sugar and sweets (+52 percent), fats and oils (+48 percent), and cereal and bakery items (+30 percent). Among animal-related products, beef prices rose only 3 percent above 1973, pork prices dropped slightly, and poultry prices fell 5 percent.

Consumers spent $172.5 billion on food in 1974, up sharply from 1973. This boosted their income share for food spending to 16.8 percent from 15.9 percent in 1973.

Food took a bigger bite of income

	1971	1972	1973	1974
	Billion dollars			
Civilian food expenditures	117	123	144	165
Disposable personal income	746	803	904	980
	Percent			
Food as a percentage income	15.7	15.4	15.9	16.8

Food Marketing Spreads

Strenthening farm prices for meat animals in the second quarter and widening spreads are expected to contribute almost equally to rising retail food prices in the first half of 1975. Rising costs for labor, energy, packaging materials, transportation, and most other inputs purchased by food marketing firms will tend to widen farm-retail spreads. Despite this cost-push effect, the spreads are expected to widen much more slowly than in the first half of 1974.

In the fourth quarter of 1974, the retail cost of a fixed market basket of foods produced on U.S. farms averaged $1,797 (annual rate), up 2.6 percent from the previous quarter. Retail prices were sharply higher for poultry, eggs, and most crop products. Increases were greatest in November and December. Retail prices of market basket foods averaged 10 percent above the last quarter of 1974.

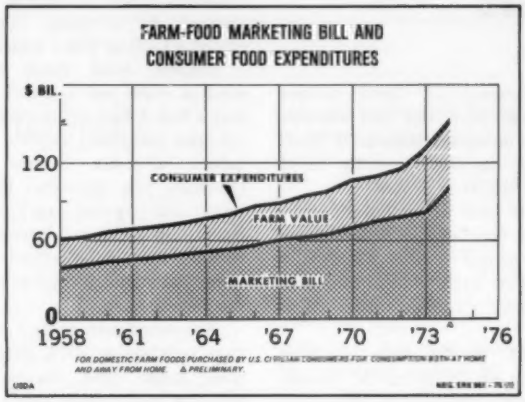
Gross returns to farmers (farm value of quantities of farm commodities equivalent to retail units) for market basket foods averaged $751 (annual rate) in the fourth quarter, up 2 percent from the preceding quarter and up 4 percent from a year earlier. Returns for crop products increased the most over year-earlier levels. Farm values for meat animals, milk, and eggs were down sharply. Poultry was the only livestock product for which returns averaged higher than a year earlier.

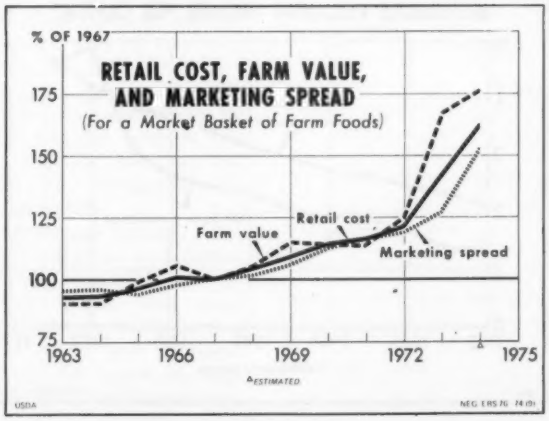
Farm-retail spreads for foods marketed from U.S. farms, after decreasing in the third quarter, widened in the fourth quarter to $1,046 (annual rate), up about 3 percent from the previous quarter, and about 15 percent above a year before.

Changes from 1973 to 1974 in market basket totals for foods from U.S. farms included: farm value +$43, + 6.2%; farm-retail spread + $169, +20.2%; retail cost + $212, +13.8%, and farmer's share of retail food dollar, -3 cents to 43 cents.

The sharp rise in the retail cost of the market basket in 1974 reflected continued strong demand and tight supplies for major crop products. Higher retail prices for crop products accounted for three-fourths of the jump. Price increases for dairy products made up most of the remainder. Price changes for other livestock products were minor.

Food prices have risen faster than prices of other goods and services in the past 2 years. With these increases, the retail cost of farm foods in 1974 averaged 62 percent above 1967, compared with an increase of 48 percent for all items except food.





Commodity Highlights

Beef: Retail prices for Choice beef averaged $1.34 per pound in the fourth quarter of 1974. The retail price for Choice beef as well as the carcass value, net farm value, and farm-retail spread in the fourth quarter of 1974 were very close to those prevailing a year earlier.

Pork: For all of 1974 retail pork averaged $1.08 per pound, about 2 cents lower than in 1973. But the farm value averaged almost 11 cents lower and the farm-retail spread widened 9 cents.

Continued on page 4.

SPREADS, continued from page 3.

Fats and Oils: The farm value of vegetable oils used in margarine and other fats and oils products averaged three-fourths higher in the fourth quarter of 1974 than a year earlier. Farm-retail spreads for fats and oils foods averaged about a third wider than a year earlier, so retail cost of these products increased by half.

Bread: A 1-pound loaf of bread cost an average of 34½ cents in 1974, 6.9 cents higher than in 1973. The farm value for wheat in a 1-pound loaf averaged 5.4 cents in 1974. Other farm ingredients added 2.5 cents to bread prices. Widening farm-retail spreads added another 4.5 cents.

Sugar: The farm-retail price spread for domestic cane and beet sugar zoomed in 1974, along with the farm value and retail price. These were the changes, based on monthly computations of prices at all levels:

Soaring prices and spreads for sugar

Quarters	Retail price for 5 pounds	Revised farm value[1]	Farm-retail spread	Farmer's share
	Cents	*Cents*	*Cents*	*Percent*
1973				
October-December	82.1	39.0	43.1	48
1974				
January-March	92.6	53.8	38.8	58
April-June	126.9	81.6	45.3	64
July-September	175.0	103.8	71.2	59
October-December	252.3	150.3	102.0	60
Annual Average	161.7	97.3	64.4	60

[1] Computed from monthly estimates of prices received by farmers for domestically produced sugarcane and sugarbeets.

OUTLOOK, from page 1.

Recovery will be a slow business. For the first half of 1975, falling demand together with falling output, rising unemployment, and lower interest rates, and slowing inflation are all in store. In particular, inflation may fall from around 14 percent for the fourth quarter of 1974 to less than 8 percent by mid-1975. Raw product prices have weakened recently, and demand will remain weak. However, the continued presence of cost-push pressures, such as demands for higher wages, is likely to prevent an early return to more normal rates of inflation.

A tax cut is likely in the first half of 1975 and monetary policy will be more expansionary compared to the second half of 1974. These policy measures, in combination with the improved economic climate provided by a period of slower inflation, should result in a mild recovery in the form of a leveling off of unemployment and output in the second half. Although increases in economic activity are possible late in 1975, production increases may not appear before 1976.

Incomes Down

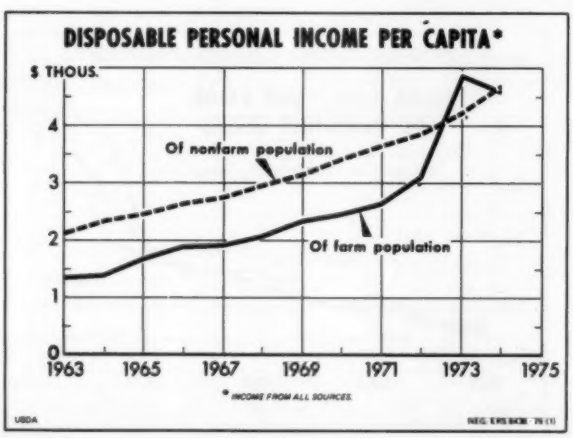
The income of farm people declined last year, but still was the second best on record. Both in 1973 and 1974, crop farmers generally fared better than livestock people.

The best year was unquestionably 1973, when the total personal income of farm people peaked at $50.4 billion. About $17 billion of this came from income sources other than farming.

In 1974, income from nonfarm sources was up by about $2 billion. But that wasn't enough to offset the $5-billion plunge in income from farm sources. As a result, farm people earned a total of $46.7 billion.

Income after taxes per farm resident came out to $4,577 in 1974, only a few dollars off the average of all nonfarm residents, $4,625. The year before, after-tax income of farm residents was actually 13 percent higher than the nonfarm figure. But as recently as 1970, and typical of earlier decades, farm folks' after-tax incomes were less than three-fourths of the nonfarm average.

All Americans took a shellacking from inflation in 1974. Because prices rose faster than incomes, "real" spending power decreased.



Commodities

Feed grain farmers and the cattlemen, hog raisers, and poultrymen who depend on these crops will have to wait and see if Mother Nature gives us a pat on the back or another slap in the face this season.

If farmers realize their January intentions to plant 124 million acres of feed grains and are able to harvest corn in the 87-97 bushel yield range, feed grain output could increase 25-40 percent above last year. This would in turn allow expansion in livestock and poultry feeding. However, as last year reminded us, bad weather could deal another hard blow to grain yields and production. The impact of a repeat of such weather this year would be accentuated by the extremely low level of feed grain stocks.

Feed Grains

Domestic feed grain disappearance in October-December 1974 amounted only to 46 million short tons and exports totaled just 9 million tons—both 18 percent below a year earlier. Total supplies for 1974/75 were 188 million tons, a fifth smaller than last season. Domestic use for feeding is projected at 123 million tons, a fifth less than in 1973/74, while exports are projected at 34 million tons, down by a fourth.

Feed grain prices have declined from last fall's peak because domestic disappearance has dropped even more sharply than last fall's poor crops reduced feed grain supplies. However, export demand will continue to bid strongly for available supplies this season. As supplies are used up, substantial price fluctuations are possible for feed grains.

Part of the acreage coming on line for this year's feed grain crop is former cotton land, especially in the Southwest and South. With lower cotton prices many cotton farmers are switching to grain and soybeans. Another reason for upped Southern feed grain acreage is that farmers may be going in for more double cropping by following their winter grain harvest with crops like sorghum and soybeans. Even though double cropping usually leads to lower second crop yields, returns per acre still tend to be greater. Double cropping could be a means for quick recovery for farmers whose crops and incomes were hard hit by inclement weather in 1974. Double cropping would, however, tend to curb corn planting because of its lengthy growing season. Hybrid seed corn this year is likely to be adequate for the corn acreage presently intended. But it will be higher priced, and the germination rate may be a little lower than last year.

Cattle Blues

American cattlemen will have to endure the squeeze caused by low cattle prices and high feed costs for a while longer. An indication of how bad things are is the value of the U.S. cattle inventory. Although the inventory was the largest in history on January 1, 1975, it bore a price tag of $21 billion, half of the $41 billion value of a year before. Another indication is the table on page 6 of representative costs and returns for a Midwestern feedlot, showing negative returns.

Continued on page 6.

January 1 feeder cattle supply

	1973	1974	1975	Percent change, 1975
	Thousand head			*Percent*
Calves under 500 pounds	32,229	33,942	36,342	+7
On feed[1]	2,024	1,575	989	-37
Feeder supply	30,205	32,367	35,353	+9
Steers and heifers over 500 pounds[2]	22,989	24,623	22,887	-8
On feed[1]	12,323	11,926	9,036	-24
Feeder supply	10,666	12,697	13,854	+9
Total Feeder supply	40,871	45,064	49,204	+9

[1] Estimated U.S. [2] Not including heifers for cow replacement.

CATTLE BLUES, from page 5.

It appears now that most cattle feeders won't reach the break-even point for selling Choice steers at least until mid-spring. By then, several factors may be more favorable. Fat cattle for sale in spring were purchased cheaply last fall. And Choice steer prices at Omaha are expected to strengthen from February lows of $34 per cwt. to the low to mid-$40's during April-June. Feed grain prices are harder to predict for the months ahead. They have weakened lately, but are still edgy. Since feed grain supplies are exceptionally tight, any pickup in disappearance could set off a price rally.

If the fed cattle market perks up as expected, it could bring up the feeder cattle price. Choice 600-700 pound feeders at Kansas City could advance to the low $30's per cwt. during April-June from their February level of $25-$27 unless feed prices also rise.

Right now, fed cattle marketings continue way down. The outlook is for cattle feeders in the 23 major cattle feeding States to market about 5.5 million cattle from feedlots during January-March, 8 percent fewer than a year earlier and about the same as last October-December.

Despite the dearth of fed cattle, packinghouse business is brisk. Because of continuing heavy supplies of cattle moving off the range with little or no grain feeding, cattle slaughter under Federal inspection has been running at a near-record place of over 700,000 head per week this year.

Commercial cattle slaughter in January totaled 3.5 million head, up 12 percent from a year earlier. This was the largest for any January on record, and only slightly smaller than last October's one-month record of 3.6 million head.

Fed cattle in January made up less than 60 percent of the slaughter supply. Cow slaughter was up nearly a third from a year earlier. The larger proportion of nonfed cattle in the slaughter mix this year is keeping average slaughter weights well below last year's level, so increases in beef production have been less than increases in cattle slaughter.

Cattle numbers on farms had grown to a record 131.8 million head by January 1, 1975, even after a record large slaughter in 1974. The January 1 inventory of heavy steers and heifers was smaller than a year earlier, but there were fewer cattle already on feed at the beginning of the year, leaving 9 percent more heavy cattle outside of feedlots and available for placement or slaughter. A 9-percent increase in the available supply of feeder calves weighing less than 500 pounds on January 1 will provide a substantial supply of heavy feeder cattle by midyear. **Continued on page 7.**

Corn Belt Cattle Feeding

Budgets	Purchase date						
	Dec. 73	July 74	Aug. 74	Sept. 74	Oct. 74	Nov. 74	Dec. 74
	Dollars per head						
Expenses							
600 lb. feeder steer	286.26	221.28	220.20	182.94	185.64	172.26	169.62
Transportation to feedlot (400 miles)	4.80	5.04	5.04	5.04	5.28	5.28	5.28
Corn (45 bu.)[1]	108.00	134.10	152.55	148.05	157.05	148.50	147.60
Silage (1.7 tons)[1]	28.25	33.95	38.71	37.93	40.26	39.47	41.62
30% protein supplement (270 lb.)[1]	24.44	21.60	26.60	24.84	26.73	25.78	25.38
Hay (400 lb.)[1]	5.60	6.15	7.05	7.10	7.55	8.16	9.80
Labor (4 hours)[2]	8.84	9.44	9.44	9.44	9.84	9.84	9.84
Management[3]	4.42	4.72	4.72	4.72	4.92	4.92	4.92
Vet medicine	2.48	2.72	2.80	2.84	2.86	2.84	2.91
Interest on purchase (6 mo.)	13.20	11.57	11.56	9.60	9.75	9.04	8.90
Power, equip. fuel, shelter, depreciation	11.49	12.56	12.93	13.14	13.22	13.37	13.44
Death loss (1% of purchase)	2.86	2.20	2.20	1.83	1.86	7.72	1.70
Transportation (100 miles)	2.10	2.21	2.21	2.21	2.21	2.31	2.31
Marketing expenses[4]	3.25	3.35	3.35	3.35	3.35	3.35	3.35
Miscellaneous & indirect costs	4.97	5.54	5.59	5.68	5.72	5.78	5.81
Total expenses	510.96	476.32	504.95	458.70	476.34	452.67	452.48
Feed cost per 100 lb. gain	36.95	43.51	49.98	48.43	51.46	49.31	49.87
	Marketing date						
	June 74	Jan. 75	Feb. 75	Mar. 75	Apr. 75	May 75	June 75
	Dollars per cwt.						
Receipts							
Choice steers, Omaha	37.33	36.27	35.00				
Selling price/cwt. required to cover all costs (1050 lbs.)	48.66	45.36	48.09	43.69	45.37	43.11	43.09
Net margin/cwt.	-11.3	-9.09	-13.09				
Selling price/cwt. required to cover feed and feeder costs (1050 lbs.)	43.10	39.72	42.39	38.18	39.74	37.54	37.53

[1] Based on average Iowa and Illinois prices for months fed. [2] Average price paid by Iowa and Illinois. [3] At twice the hourly labor rate. [4] Yardage plus commission fees at a Midwest terminal market.

Another important feature of the January 1 inventory is a larger cow herd, which points the way to a record 1975 calf crop, and thus to a potential for larger supplies of beef through 1976. Range conditions and feed supplies and prices later this year will dictate how much of these record supplies are slaughtered as fed cattle.

Retail beef prices averaged $1.39 per pound in 1974, only 2 percent above 1973. Wholesale and retail prices are expected to trend higher through the remainder of the first half with a continuing large gap between steer and cow beef prices at the slaughter level.

At the retail end of the marketing chain, demand for meat may hold up well. Consumers in 1974 continued to indicate their love of red meats by chewing their way through the third largest amount on record. Per capita consumption of about 187 pounds was up more than 11 pounds from 1973. Prices for all goods and services were up 11 percent, and all retail foods were up 15 percent, while meat prices were only up about 2 percent.

Demand for meat may hold up well through the first half of 1975, although growth will probably be at a slower rate than in 1974. Reduced consumer spending for big ticket items such as homes and cars may leave more money for food, and meat in particular. Smaller supplies of pork and poultry may also help out cattlemen.

Hogs

Last fall's reduced corn crop with resultant high feed prices led to large-scale liquidation of hog breeding stock. Market hog inventories last December suggest hog slaughter and pork supplies in the first half of 1975 may be the lowest in 9 years. As hog slaughter dips below year-earlier levels, prices are expected to strengthen throughout most of the first half. Continuing high feed prices in early 1975 will probably cause average slaughter weights to decline seasonally from the fall and drop well below the unusually heavy weights seen back in early 1974. Barrow and gilt prices are expected to cash in mostly between $40-$45 per cwt. through June.

Last December, hog farmers reported plans for record low sow farrowings during December-May. This planned cut points to a 14-16 percent reduction in hog slaughter for the second half of 1975.

Corn Belt Hog Feeding

Budgets	Purchase date						
	Dec. 73	July 74	Aug. 74	Sept. 74	Oct. 74	Nov. 74	Dec. 74
	Dollars per head						
Expenses							
40 lb. feeder pig	32.33	21.50	18.90	18.75	24.10	21.13	25.75
Corn (11 bu.)[1]	26.40	32.78	37.29	36.19	38.39	36.30	36.08
Protein supplement (130 lb.)[1]	16.58	12.48	15.80	13.98	15.60	15.14	14.56
Labor & management (1.3 hrs.)[2 3]	5.75	6.14	6.14	6.14	6.38	6.38	6.38
Vet medicine	1.24	1.36	1.40	1.42	1.43	1.45	1.45
Interest on purchase (4 mo.)	.99	.75	.66	.66	.84	.74	.90
Power, equip. fuel, shelter, depreciation	3.02	3.30	3.40	3.44	3.47	3.51	3.53
Death loss (4% of purchase)	1.29	.86	.76	.75	.96	.85	1.03
Transportation (100 miles)	.44	.46	.46	.46	.48	.48	.48
Marketing expenses[4]	1.08	1.12	1.12	1.12	1.12	1.12	1.12
Miscellaneous & indirect costs	.31	.34	.35	.35	.36	.36	.36
Total	89.43	81.09	86.28	83.26	93.13	87.46	91.64
Feed cost per 100 lb. gain	23.88	25.14	29.49	27.87	29.99	28.58	28.13

	Marketing date						
	Apr. 74	Nov. 74	Dec. 74	Jan. 75	Feb. 75	Mar. 75	Apr. 75
	Dollars per cwt.						
Receipts							
Barrows and gilts 7 markets/cwt.	30.52	38.34	39.93	38.93			
Selling price/cwt. required to cover all costs (220 lbs.)	40.65	36.86	39.22	37.85	42.33	39.75	41.65
Net margin/cwt.	-10.13	+1.48	+0.71	+1.08			
Selling price/cwt. required to cover feed and feeder costs (220 lbs.)	34.23	30.35	32.72	31.33	35.50	32.99	34.72

[1] Based on average Iowa and Illinois prices for months fed. [2] Average price paid by Iowa and Illinois. [3] At twice the hourly labor rate. [4] Yardage plus commission fees at a Midwest terminal market.

Few Sheep

This January's sheep and lamb inventory once again showed a sizable drop in total size. The 14.5-million head herd is the smallest on record and is 11 percent below a year earlier. The 9-percent drop in breeding ewes means a similar cut for the 1975 lamb crop. While prices will remain strong, sheep and lamb slaughter will continue lower through the first half of 1975. Normal seasonal price trends for slaughter lambs are likely with prices rising into late winter or early spring, then dropping back and stabilizing later in the year. Lamb prices will likely range $40-$45 per cwt. through the first half of 1975.

Dairy Products

Milk prices are being strengthened by the new higher support prices but aren't likely to make it back up to the record highs set last year.

Manufacturing milk prices picked up in January following declines in December as the new support support prices came into effect. Manufacturing milk price supports were boosted to $7.24 per hundredweight on January 4, up a tenth from the previous level and equivalent to 80 percent of the December 1974 parity equivalent price. The new rate stays in effect until April 1, 1976. With better prices for manufacturted products, farmers received $8.29 per hundredweight for all milk sold in January, up slightly from December but 7 percent under a year before.

In a companion action, USDA amended all Federal orders to bring minimum Class I milk prices for February and March in line with the higher support levels. Even so, all milk prices early this year aren't expected to show much more strength, because dairy stocks are large and milk production is expected to hold about steady in the first half.

Commercial dairy product stocks entering 1975 totaled 5.6 billion pounds (milk equivalent), up a sjxth from a year ago. American cheese stocks accounted for most of the rise. Nonfat dry milk stocks held by manufacturers and USDA were also up substantially. Butter and cheese purchases by the CCC picked up in January with the higher support prices, while nonfat dry milk removals continued sizable. The CCC has been removing more dairy products from the commercial market than a year ago.

Tough Times

Although times are tough for dairymen, milk production has been about holding its own. After dropping 4 percent in 1973, output held steady in 1974 at 115.4 billion pounds. Production per cow rose slightly and declines in cow numbers slackened because of unusually low slaughter cow prices. That situation continues into 1975. In January, milk cow numbers were only 1 percent below January 1974. Cow numbers are likely to stay near 1974 levels through the first half.

Production later this year will depend to a large degree on feed prices, milk prices, and the general economic picture as it affects dairy product sales. Dairy sales may hold close to year-earlier levels in coming months. Retail dairy prices likely will rise more slowly than food prices generally. However, demand for dairy products could be weakened by declining consumer purchasing power, high unemployment rates, and inflationary pressures.

With declining prices from a year before in the closing months of 1974, cash receipts from dairying dropped. Meanwhile, production costs continued climbing and many dairy farmers are in a severe cost-price squeeze. However, because of increases early in the year, their cash receipts from dairying jumped 16 percent for all of 1974, to nearly $9½ billion.

Poultry

Poultrymen continue to adjust to tight supplies and high prices for their feed ingredients. Feed prices have slumped from last summer's highs, but the wise eye is on the feed market where any substantial increase in use either for domestic feeding or for export could bring higher prices.

Broiler and turkey meat will continue to compete with larger beef supplies this winter and spring. However, beef prices probably reached their low point in early 1975 and will increase in coming months as supplies of other meats decline.

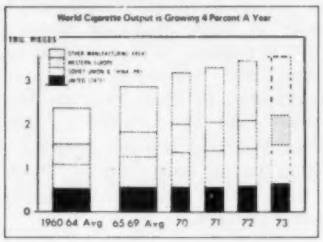
This spring will see a seasonal increase in broiler and egg output; however, it will be much weaker than last year. Turkey output will be down, also. Broiler and turkey prices are expected to continue strong, while egg prices should strengthen in March as Easter approaches, and then decline seasonally.

Broiler prices did not show their usual seasonal decline last fall and have continued relatively strong in early 1975. They've benefited in recent months from lower production of broilers and turkeys. Turkey prices have weakened in early 1975 as consumer demand has lagged. Turkey prices will likely stabilize near current levels and then strengthen in late spring and summer as supplies remain below a year ago.

Tobacco = Growth

Abstracted from a speech given by Robert H. Miller at the 26th Tobacco Worker's Conference, Charleston, S.C.

The resurgence in tobacco production and prices last year may presage a trend of the future. The tobacco industry has been beset by numerous problems—health concerns, scarce labor, costlier inputs. But these have not been strong enough to halt a persistent growth rate. World cigarette production, for example, continues to climb 4 percent a year.



Looking ahead to 1985, the amount of cigarette tobacco used in U.S. cigarette manufacturing alone may climb 10-20 percent. We now think per capita cigarette consumption in 1985 will at least rival the 1974 rate of 211 packs per adult. This was second only to the 217 packs consumed in 1963. Based on the 1974 rate of per capita smoking and population growth, 1985 cigarette production would require 11 percent more tobacco than in 1974. Alternatively, if there is less concern in the future about the health hazards of smoking, per capita use may increase 10 percent, meaning an even greater upswing in the amount of tobacco needed for cigarettes.

Growers have feared that synthetic tobacco will take part of their market. Foreign markets for synthetics are being developed, but the situation depends heavily on the tax and additive laws of each country. For the U.S. market, so long as natural tobacco supplies are available and not much more expensive than they are now, the possibilities of inroads from synthetics are remote.

How tobacco needs could grow in the next decade

Marketing year	Flue-cured	Burley	Maryland and other	Total domestic	Imported
	Million pounds, farm-sales weight				
	Cigarettes				
1974	675	185	13	1,173	242
1985 (medium)	726	528	16	1,270	295
1984 (high)	788	573	16	1,377	323
	Total, incl. cigars and other products				
1974	725	545	113	1,383	372
1985 (medium)	775	590	90	1,455	440
1985 (high)	837	635	90	1,562	468

In 1974 an estimated 635 billion cigarettes were produced. Medium projection assumes 825 billion cigarettes will be produced in 1985; high projection assumes 895 billion.

Over the next several years, U.S. tobacco supplies will be tight relative to requirements of manufacturers, who are now resorting to use of more imported tobacco and who may be resorting to shortening their aging times in the next few years.

For U.S. flue-cured tobacco, the total 1974/75 supply is equal to 2.2 times probable disappearance compared to the desirable ratio of 2.4. Burley supply equals 2.6 times probable disappearance compared to the desirable ratio of 2.75. Thus, by this standard the supply shortfall is around 300 million pounds for flue-cured and 100 million pounds for burley.

Manufacturers are making up some of this deficit with imported tobacco. Foreign-grown flue-cured and burley stocks totaled 171 million pounds in January 1975 compared with 87 million a year earlier and only 48 million 2 years earlier. Larger quantities of both leaf and scrap are arriving (general imports) and manufacturers are using more (imports for consumption).

Carryover into the new marketing year next October will include only negligible quantities of 1972 and older crops. Then manufacturers will have to use stocks of the 1973 crop as the main part of their blends. But that crop was short. So later next season manufacturers will either have to substantially shorten their usual aging time and use the 1974 crop or use significantly more foreign tobaccos.

A similar situation would apply in 1976 when the 1974 crop is used. But for 1977 and beyond, the industry's maximum use of U.S. flue-cured and burley tobaccos will clearly be limited by the size of the crop in 1975 and succeeding years.

TOBACCO'S FUTURE

For a copy of the complete speech, *Tobacco Use: Trends and Projections*, clip this coupon and send with your name and address and Zipcode to:

Tobacco, Economic Research Service,
Rm. 482-GHI,
U.S. Department of Agr.,
Washington, D.C. 20250

Name _____

Address _____

_____ **Zip**

Vegetables

Following favorable 1974 harvests and reduced prices, vegetable growers have lowered acreages of winter crops and are planning some reductions this spring. Smaller production and higher prices are thus on stream for many segments of the industry.

Fresh vegetables will be in shorter supply this winter than a year ago, due to a 12-percent cutback in acreage and light imports from Mexico. Import activity should pick up rapidly during February and March, but fresh vegetable inshipments will not approach record levels in 1975.

Grower prices during the first quarter will generally exceed those of the previous year, when winter vegetables were more abundant. However, grower prices, pushed up by light marketings in January, should drop in February and March as lettuce supplies expand and the imports from Mexico increase seasonally. Retail prices are likely to follow suit.

Acreage reductions for lettuce indicate drops in winter output. Texas farmers cut spring onion plantings by 3,500 acres in response to large stocks of storage onions on hand on January 1 and low prices last year. The decline in onion supplies from Texas and light supplies expected from Mexico point to moderate price hikes when the storage season ends in April.

Larger supplies of processed vegetables are available for the 1974/75 marketing season. The combined pack of seven leading frozen items remained unchanged in 1974, but January 1 stocks were the largest in 3 years. For canned vegetables, larger amounts of concentrated tomato products accounted for most of the increase in the 1974 pack. There is no shortage of canned vegetables generally this season, but canned corn is in short supply.

Although processed vegetable supplies are ample, wholesale and retail price increases in 1974 were the largest for any single year in recent times. Canners and freezers paid more for raw product, labor, energy, and containers. The higher prices and heavy early purchases have restricted movement in recent weeks.

Potatoes

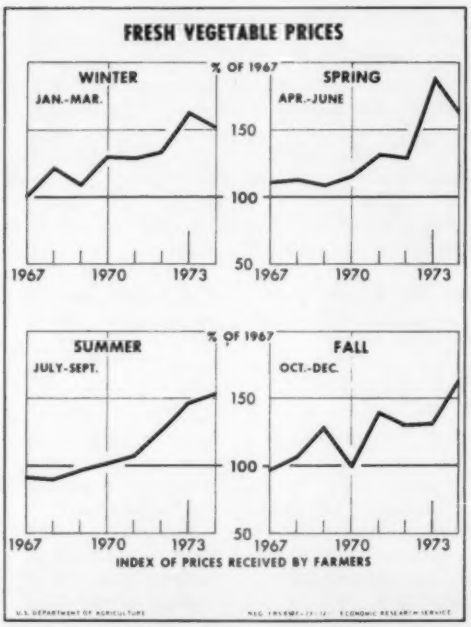
Following record output, stocks were at a new high for February. Open market prices are depressed because of the supply situation. Fall crop potatoes brought farmers a U.S. average price of $3.32 per cwt. in January, down $1.56 from 1973 when supplies were relatively short. F.o.b. Maine cash prices indicate a sharper contrast: between $10 potatoes in January 1974 and $2 potatoes this year.

Fresh market use of potatoes will increase only slightly this season despite the large crop. More potatoes will be fed to livestock, particularly in light of the higher 1975 feed prices. About 4 percent of the 1974/75 supplies are likely to be used for feed.

Spring potato acreage will decline an estimated 14 percent, a normal response to the abundant stocks. The current heavy supply picture suggests a reduction in acreage for harvest next fall. Other potential dampeners on fall acreage are bullish prices for sugarbeets, weak winter cash markets for potatoes, and an unsettled situation for grain crop alternatives.

Beans

Generous supplies of nearly all classes of dry beans will be on hand through the summer, thanks to record yields which lifted the 1974 harvest to 21 million cwt. Grower prices continued downward in late fall and early winter because of slack demand and record supplies, but remained high by historic standards. Acreage will be lower in major producing States in 1975 in response to large supplies and expected grower-dealer price weaknesses. In some areas dry bean acreage will be switched to other crops, including corn and soybeans. A return to more usual yields and smaller acreage should mean smaller supplies during 1975/76.



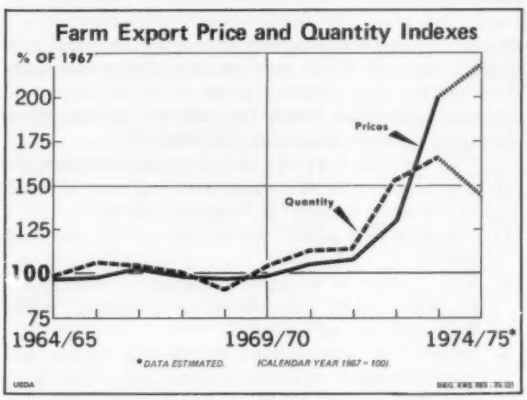
Foreign Focus

Smaller Farm Exports Bring More Money

U.S. farm exports are expected to reach $22 billion in fiscal 1975, a record high. Exports were worth $8 billion in fiscal 1972, jumped to $12.9 billion in 1973, and soared to $21.3 billion in 1974.

With fiscal 1975 imports of farm products forecast at $10.7 billion, the agricultural trade surplus is expected to be around $11 billion. This would compare favorably with last year's $11.8-billion surplus and would temper the overall U.S. trade deficit projected for fiscal 1975. Main cause of this deficit is spiraling oil-import costs.

Higher prices account for all of the projected value gain in fiscal 1975 farm exports. For the first time since 1967, volume will be down, dropping from 100 million tons for exports of major commodities in fiscal 1974 to an estimated 84 million tons. Short U.S. crops in 1974, reduced grain stocks, and reduced purchases by the USSR, China, and Western Europe are the main reasons for the lighter volume of shipments.



Here's a rundown of expected farm exports by commodity:

- Feed grain export volume is projected at 30 million metric tons, down sharply from fiscal 1974's 43.8 million tons, but value will be up 10 percent.
- Wheat exports are expected to decrease 4 percent in value and drop from 31 to 30 million tons in volume.
- Rice exports, benefiting from a bumper 1974 crop, could reach 2.4 million tons—up from 1.6 million in fiscal 1974. Value would increase by one-fourth.
- Oilseed exports, including products, are estimated to drop 8 percent in quantity, but only 4 percent in value—even though soybean meal prices are running below last year's levels.
- Cotton exports are estimated to drop from 6.1 to 3.9 million bales because of built-up stocks in foreign markets and a general slowdown in demand. But value would decline only by one-fourth.
- Livestock and livestock product exports could fall 14 percent in value bacause of stagnating consumer demand and heavy world beef supplies. Dairy and poultry exports, however, are expected to increase in value.

Exports to the USSR are forecast to be down a fourth in value, and those to China, by 65 percent. Wheat exports to the Soviets may drop from 2.7 to around 1.2 million tons, reflecting both record grain crops in 1973 and good crops in 1974 on the Soviet side, and limited 1974 feed grain output on our side.

Wheat exports to China will also be lower, since half of the recent 601,000-ton cancellation was scheduled for delivery in fiscal 1975. Smaller feed grain, cotton, and oilseed exports to this market will also contribute to the sharp drop from last year's value.

Except for a slight decline in exports to Western Europe, shipments to all other world regions should show a value gain.

Food Aid

The U.S. commitment for foreign food assistance under P.L. 480 has been boosted from a planned $1 billion to $1.6 billion (including ocean transportation) for fiscal year 1975, against $1 billion last year. Emphasis is being placed on those nations with the most need for emergency food relief.

Benefits will accrue at home as well as overseas, as added Government food purchases for export offset some of the reduced foreign demand that has resulted from global economic troubles.

FOREIGN FOCUS continues on page 12.

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101
FIRST CLASS

U.S.MAIL

9085 GAINMR300A112 18002 0001
M GAINEY
XEROX/UNIVERSITY MICROFILMS
300 N ZEEB RD
ANN ARBOR MI 48106

Tomorrow's Ag Research

The direction of our agricultural research has been guided by the needs of U.S. commercial agriculture, and has helped to make it the most advanced and productive in the world.

Today, an additional orientation is emerging for agricultural research, that of rapidly boosting food production in the poorer nations, which also have the fastest rising populations. The developed countries are already conducting much research in or on behalf of the developing world—this work was valued at $115 million in 1970. But the United Nations recommends boosting ag research in developing countries to at least $1¼ billion in 1985.

Prestigious national and international groups are meeting now, following the World Food Conference, to discuss the most pressing priorities for boosting agriculture in developing countries.

These priorities differ somewhat from those of American farmers, but the results of such research may benefit U.S. farmers of the future just the same. For example, the World Food Conference recommended increasing the number of international research centers like the ones in the Philippines and Mexico that developed high yielding rice and wheat varieties, and sharply increasing their budgets. One proposed center of special interest to Amercian agriculture would concentrate on integrating everything we know about plant nutrition.

At the national level, the United Nations proposed the following priorities for developing countries, some of which might offer useful spinoffs for American farming:

(1) continued first priority on cereals research, including triticale;
(2) ways to improve biological efficiency of cereal plants to reduce their dependence on purchased inputs without sacrificing yields;
(3) reseach on food legumes, recognizing disease and insect problems and relatively low ceilings on yields;
(4) more priority on annual oilseeds such as sunflower, safflower, and rapeseed;
(5) pasture improvement, especially in semi-arid regions;
(6) basic research topics such as better understanding of the nitrogen-fixing mechanism; improving photosynthetic efficiency of plants; and improved means of monitoring and understanding weather and relating weather patterns to crop and livestock production and research—identified as "perhaps one of the more grossly neglected aspects of science."